

# Baltimore Industrial

**SECOND QUARTER 2008**

*"While vacancy rates have remained relatively stable, there has been a decrease in overall leasing activity. Face rental rates continue to remain at 2007 levels although building owners are offering more concessions. The market continues to be land constrained and current supply is at reasonable levels, so the long-term fundamentals remain strong for industrial product in Baltimore."*

- Bill Pellington, Senior Vice President.

## QUICK STATS

	Current	Change from last*
	Yr.	Qtr.
Direct Vacancy	8.26%	↓ ↓
Overall Lease Rate	\$5.97 NNN	↑ ↑
Net Absorption (YTD)	1,318,103 SF	↓ ↑
Deliveries (YTD)	1,805,742 SF	↓ ↓
Under Construction	1,473,971 SF	↓ ↓

\*The arrows are trend indicators over the specified time period and do not represent a positive or negative value. (e.g., absorption could be negative, but still represent a positive trend over a specified period.)

## HOT TOPICS

- Proctor & Gamble repositions national operations by consolidating and leasing 580,000 square feet in the Harford/Cecil submarket.
- Flex space absorption increasing around Aberdeen Proving Grounds; defense contractors leasing in preparation for BRAC.
- Potential big box tenants are in a holding pattern, waiting to discern the impact of the lending markets on the economy.

The Baltimore area exhibited healthy industrial leasing activity in the second quarter of 2008. Despite an evident trend that prospects are forgoing lease executions in light of economic conditions, several significant deals executed in the second quarter resulted in the bulk of the positive absorption. In particular, Proctor & Gamble executed a 580,000 square foot lease in the Harford/Cecil submarket, a corporate strategy to consolidate and reposition facilities throughout the U.S.

Baltimore's industrial market has become a thriving warehousing and distribution core due to an efficient intermodal transportation system. The Port of Baltimore is one of the nation's leading Roll-on/Roll-off (Ro/Ro) seaports, handling nearly 50% of the East Coast's Ro/Ro cargo making it convenient for heavy machinery, automobile and breakbulk cargo imports. In addition, the port is closer to the Midwest than any other Atlantic seaport; it is one of two ports on the eastern seaboard with a channel depth greater than fifty feet, and it has a breadth of skilled and experienced labor.

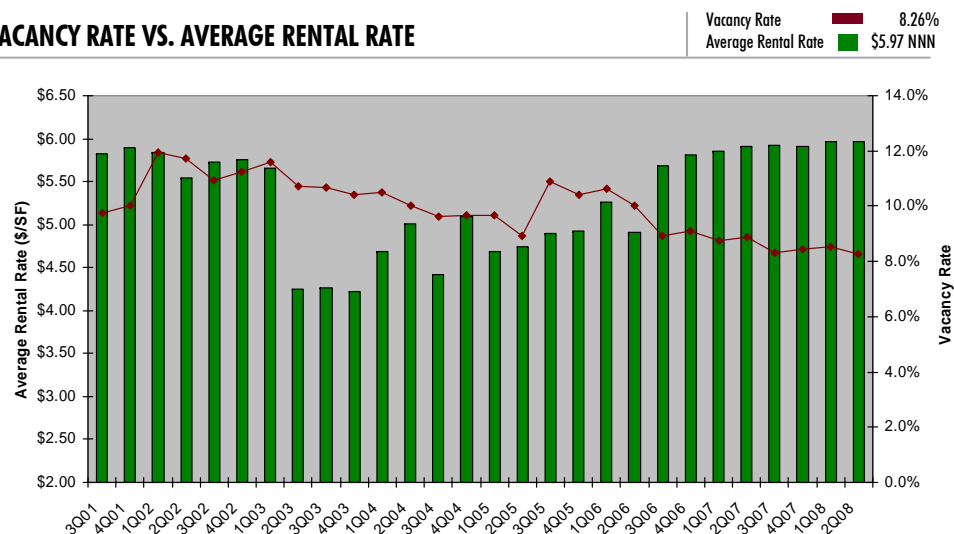
The various forms of logistical access make Baltimore a targeted area for bulk distribution and warehousing, indicated by more than

580,000 square feet of net absorption in the second quarter for bulk warehouse buildings with a 20 foot clear ceiling height or greater. Hinging on these logistical factors, AGCO entered the market by leasing 105,000 square feet in the Harford/Cecil submarket during the second quarter to manufacture and distribute agricultural equipment.

Flex product in the Baltimore area also experienced robust leasing activity during the quarter. CACI agreed to prelease 60,000 square feet at the G.A.T.E project outside of the gates at Aberdeen Proving Grounds, and defense contractor R4 leased 20,000 square feet near Aberdeen intending to research and design soldier training equipment. These deals are the rudimentary commencement of the BRAC effect in the Baltimore area, where an influx of defense contractors are beginning to move in anticipation of the defense agencies relocating to the area.

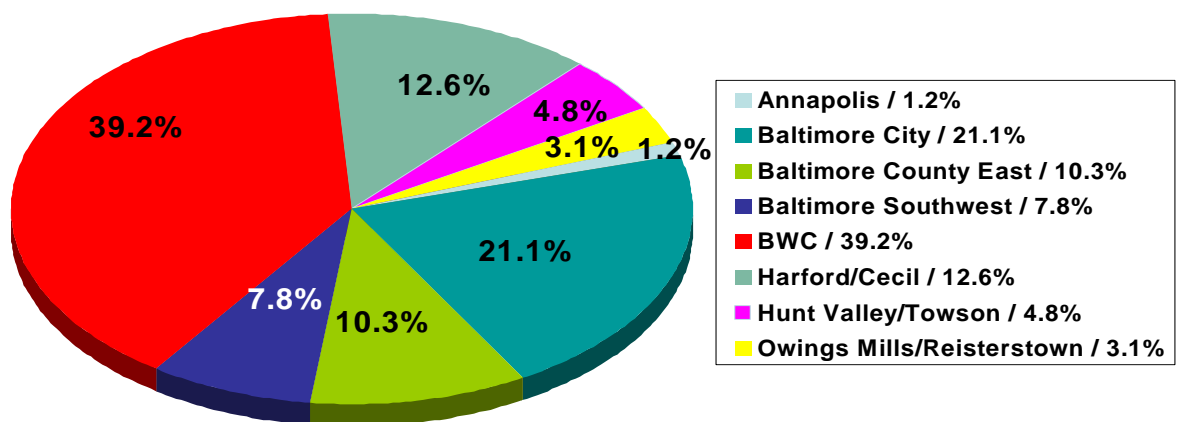
Economic conditions resulting from constraint in the debt markets have reduced industrial investment sales in the second quarter of 2008. Despite the lack of investment sale activity in the first half of 2008, it is anticipated that deal velocity for industrial investment sales will increase in the second half of 2008.

## VACANCY RATE VS. AVERAGE RENTAL RATE



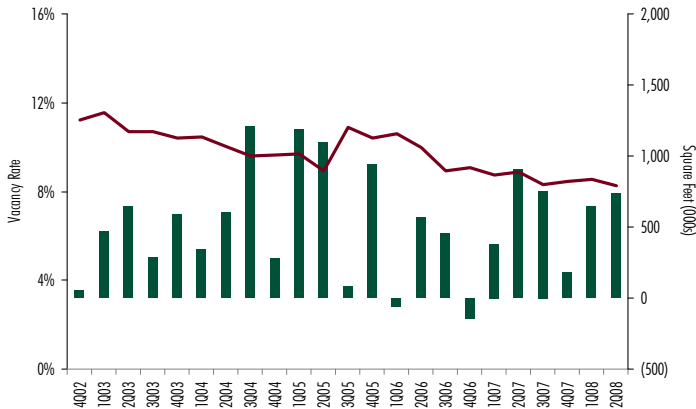
Submarket	Inventory	Direct Vacancy Rate	Net Absorption YTD	Total Under Construction	Asking Rates	
					Warehouse	Flex
Annapolis	1,847,413	2.19%	11,553	-	\$6.05	\$15.53
Baltimore City	32,404,819	8.47%	(488,820)	60,000	\$4.64	\$6.36
Baltimore County East	15,781,144	12.27%	251,614	-	\$5.04	\$11.94
Baltimore Southwest	12,065,851	3.71%	427,235	526,266	\$4.36	\$9.98
Balt/Wash Corridor	60,426,414	7.19%	694,431	237,705	\$5.54	\$12.01
Harford/Cecil County	19,345,678	12.30%	585,207	650,000	\$4.35	\$8.48
Hunt Valley/Towson	7,330,075	9.13%	28,616	-	\$6.45	\$9.78
Owings Mills/Reist. Rd	4,769,382	3.79%	29,840	-	\$7.57	\$10.86
<b>Totals</b>	<b>153,970,776</b>	<b>8.26%</b>	<b>1,539,676</b>	<b>1,473,971</b>	<b>\$5.50</b>	<b>\$10.62</b>

#### INVENTORY DISTRIBUTION BY SUBMARKET



## VACANCY/NET ABSORPTION

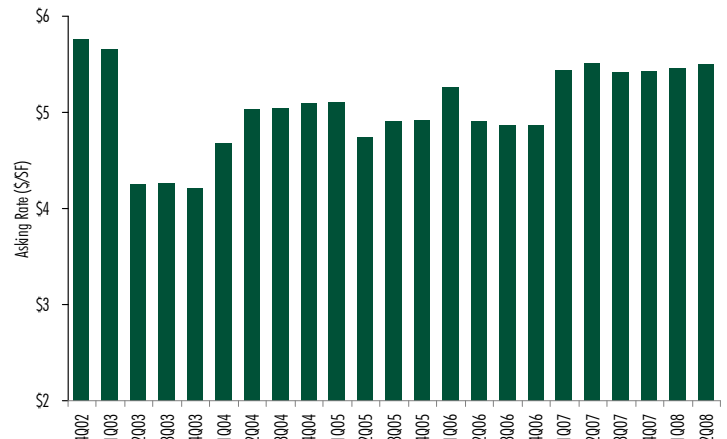
Vacancy 8.26%  
Absorption 737,474 SF



At the end of the second quarter of 2008, the Baltimore industrial market absorbed 737,474 square feet of space. The warehouse sector contributed 542,666 square feet to the total. The largest lease of the quarter was executed by Proctor & Gamble in the Harford/Cecil submarket, which contributed the most to total net absorption for the quarter in the metro area, absorbing 545,207 square feet in the second quarter, while Baltimore Southwest had the next most, absorbing 140,962 square feet. Flex product has been steadily absorbed throughout 2008 particularly in the BWC submarket, where government defense contractors are taking research and development space.

## AVERAGE ASKING LEASE RATES\*

Average Asking Lease Rate \$5.50 NNN

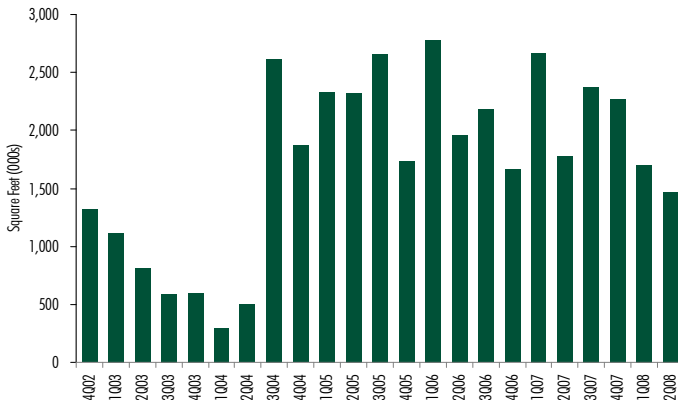


\*Warehouse Lease Rates only

The average asking rate for warehouse space in the second quarter of 2008 was \$5.50, virtually unchanged from \$5.46 per square foot in the first quarter. Despite the effects of a softening economy, rents for Baltimore industrial space continued to rise because of the increase in Class A inventory. Many antiquated buildings have been renovated in recent years to elevate the quality to that which local companies demand. Scarcity of land and the cost of ground-up development can make redevelopment a less capital intensive opportunity for developers and owners interested in owning Class A product.

## CONSTRUCTION ACTIVITY

Square Feet U/C 1,473,971 SF



Five buildings, totaling 769,185 square feet, delivered 26% preleased in the Baltimore Metropolitan Area during the second quarter. The preleasing activity among industrial deliveries this quarter was the highest in eight quarters. There are currently eight industrial buildings under construction in the region, totaling approximately 1.47 million square feet. Each building in the Baltimore area is being constructed on a speculative basis, so whether the area's vacancy rate rises or falls is contingent on tenants' ability to absorb the space in the new product.

## MARKET OUTLOOK

New construction of bulk space has begun to taper particularly in the Baltimore/Washington Corridor. Tenant demand has been softer in the first half of 2008 in comparison to 2006 and 2007, but limiting supply of new space will assist in keeping vacancy rates low. Several bulk leases are expected to close in the third quarter, thus displaying the importance of Baltimore as a business center. Rising energy and transportation costs may cause industrial users to re-evaluate operational logistics and distribution. Location and access may become more critical elements to prospects in the market, attempting to maximize profitability via reducing throughput costs.

### TOP 2Q 2008 BALTIMORE LEASE TRANSACTIONS

Size (Sq. Ft.)	Tenant	Address	Submarket	Property Type
580,000	Proctor & Gamble	4608 Appliance Drive	Harford/Cecil	Warehouse
140,069	Systems Connection of Maryland	8839 Greenwood Place	BWC	Warehouse
107,000	Ulma Form Works	8235 Patuxent Range Road	BWC	Warehouse
105,000	AGCO	1704 Trimble Road	Harford/Cecil	Warehouse

### BALTIMORE SUBMARKET MAP



#### AVAILABLE SQUARE FEET

Includes advertised listings in existing buildings regardless of possession date. It includes building area that is either physically vacant or occupied.

#### AVAILABILITY RATE

Available square feet divided by the net rentable area.

#### AVERAGE ASKING LEASE RATE

Rate determined by multiplying the asking lease rate for each building by its available space, summing the products, then dividing by the sum of the available space with net leases for all buildings in the summary.

#### FULL SERVICE

Rent is inclusive of operating expenses and rates.

#### MARKET COVERAGE

Includes all existing competitive industrial buildings greater than 10,000 square feet for flex and 20,000 square feet for warehouse.

#### NET ABSORPTION

The change in occupied square feet from one period to the next.

#### NET LEASES

Includes all lease types whereby the tenant pays an agreed rent plus most, or all, of the operating expenses and taxes for the property, including utilities, insurance and/or maintenance expenses.

#### NET RENTABLE AREA

The gross building square footage minus the elevator core, flues, pipe shafts, vertical ducts, balconies, and stairwell areas.

#### OCCUPIED SQUARE FEET

Building area not considered vacant.

#### UNDER CONSTRUCTION

Buildings which have begun construction as evidenced by site excavation or foundation work.

#### VACANT SQUARE FEET

Immediately available or physically vacant space in existing buildings. The vacancy rate excludes sublease space.

#### VACANCY RATE

Vacant building feet divided by the net rentable area.

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